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SUBJECT: Argentina: Finance Secretary Says Full Speed Ahead on
Holdout Deal

REF: BUENOS AIRES 55

Summary

1. (SBU) Argentine Finance Secretary Hernan Lorenzino stressed in a February 1 meeting that the debt exchange is moving ahead at full speed. He repeatedly emphasized that there are no political obstacles to moving it forward and that the Central Bank and Redrado affair is not affecting the transaction in any way. He lauded the SEC's handling of the approval process, especially in light of attempts by vulture funds to convince the agency to disrupt the process. The GOA still hopes to launch the proposal in February, but that depends on the SEC's response to the latest GOA submissions in answer to SEC questions. When initiated, the deal is expected to be open for thirty-days, to give small retail investors adequate time to evaluate it and participate. Saying that the pending offer is still worth more now -- 50 to 55 cents on the dollar despite the recent decline in the bond market -- than when originally formulated, Lorenzino expects a very high institutional participation rate. On the Azurix ICSID case, Lorenzino confirmed that negotiations are well advanced, but could be complicated somewhat by the need to secure the approval of the deal by the government of Buenos Aires Province. End Summary.

No Political Obstacles to Holdout Deal

12. (SBU) On February 1, WHA/BSC Office Director Milton Drucker and Dep EconCouns met with Secretary of Finance Hernan Lorenzino and Undersecretary of Finance Adrian Cosentino to discuss the latest developments with regard to the proposed GOA debt restructuring and ICSID arbitration cases. Lorenzino welcomed the visit, which he described as "timely," noting that the debt exchange offer is moving ahead at full speed. He added that both the President and Minister of Economy Boudou fully support the transaction and emphasized repeatedly throughout the discussion that there are no political obstacles to moving forward. He also said several times that the Central Bank and Redrado affair is unrelated to the debt transaction and is not affecting it.

SEC Approval Process Going Well

13. (SBU) Lorenzino explained that as part of the approval process for the debt restructuring, the U.S. Security and Exchange Commission (SEC) requested fifty-one clarifications after reviewing the GOA's over-300 page submission. The GOA submitted its response on January 27 and is currently waiting for the SEC's final approval or request for additional information, which he very much hoped would not be as extensive as the first one. Following the SEC's review, the GOA will file paperwork with securities regulatory agencies in Luxemburg, Italy, and Japan, which generally wait to begin their approval processes until after the SEC issues its final approval. Lorenzino expressed satisfaction with how the SEC is

conducting itself, particularly in light of what he characterized as "the extreme pressure the SEC is facing from lobbies and funds unwilling to participate in the debt exchange." He explained that "vulture funds" have made several negative presentations about the GOA proposal to the SEC in the last few months, apparently drawing on the Argentine press to dredge up information to support their case, and quoting Argentine opposition figures who oppose the deal.

Hope for February Launch

14. (SBU) Lorenzino said that the GOA hopes to be able to launch the transaction in February. The expectation is that the deal will remain open for a period of thirty-days to allow small retail holders enough time to evaluate and then participate in the exchange. Depending on the preliminary participation rate in the transaction and in an effort to promote a higher participation rate by retail investors, the GOA may consider extending the period during which investors can decide to participate. He insisted that the GOA is working to launch as soon as possible.

Composition of Holdouts

15. (SBU) Secretary Lorenzino explained that the holdouts' principal claims total USD 20 billion (without interest). Although he said that it is impossible to know how the claims are divided up, he indicated that the following is as good an estimate as possible: USD 3 billion are held by several vulture funds, based in the Cayman Islands. These funds are not willing to participate in the exchange, and will continue to pursue legal remedies. USD 13-15 billion is held by institutional investors based mainly in New York, Boston and London. These investors are enthusiastic at

the prospect of a deal. Finally, USD 2- 4 billion is held by small retail investors, mainly in Europe.

16. (SBU) The great majority is from Italy, and there are some from Germany and Japan as well. While the amount held by retail investors is somewhat unclear, Lorenzino believes it is closer to USD 2 billion than USD 4 billion, since he said that many of the original retail investors sold their holdings of defaulted GOA bonds to institutional investors. In a meeting last week, Italian Embassy DCM Guglielmino told the DCM that Lorenzino had recently been to Italy to garner GOI and investor support for the debt swap. He said that there are about 180,000 small Italian investors who still hold defaulted Argentine paper, down from about 400,000 at the time of the actual default. The Italian government was hoping that the GOA would be willing to sweeten the deal somewhat for them, but Lorenzino indicated that the GOA had to offer the same deal to all of the affected investors. In the meeting with Drucker, Lorenzino noted that the 30-day subscription period was intended as a sweetener for small investors, since the institutional investors who wanted to participate would do so immediately.

50-55 Cents on the Dollar

17. (U) Lorenzino stated that in spite of the recent bond market decline, the offer is still worth more than when the GOA started working on it. Without going into much detail, he assessed that the offer would end up being valued at around 50-55 cents on the dollar. He said that most institutional investors would participate since they had purchased their bonds at much lower prices. Furthermore, he said that the spread between the old eligible bonds and the new bonds has always been positive, which makes the transaction attractive to these investors. However, this is not the case for retail investors, who had generally purchased their bonds at close to par value.

Azurix ICSID Case

18. (U) Lorenzino confirmed that the GOA -- through the Treasury Attorney's office (Procuracion General del Tesoro) -- and Azurix are in negotiations and well on the way to reaching an agreement and finalizing a term sheet. He added that the Azurix case is complex as it involves the Province of Buenos Aires, which means that any agreement reached by the Federal Government must also be endorsed by the province. Drucker stressed the importance of successfully concluding these negotiations, which would serve as a precedent in dealing with other ICSID cases.

19. (U) Mr. Drucker has not seen this cable and requested that it go out without his clearance.
MARTINEZ